

The loyalty penalty in essential markets

Two years since the super-complaint

The logo for Citizens Advice, featuring the text "citizens advice" in a dark blue, sans-serif font. The text is contained within a white speech bubble shape that has a small tail pointing towards the bottom right. The entire logo is set against a solid magenta background.

**citizens
advice**

In 2018, Citizens Advice made a super-complaint about the loyalty penalty

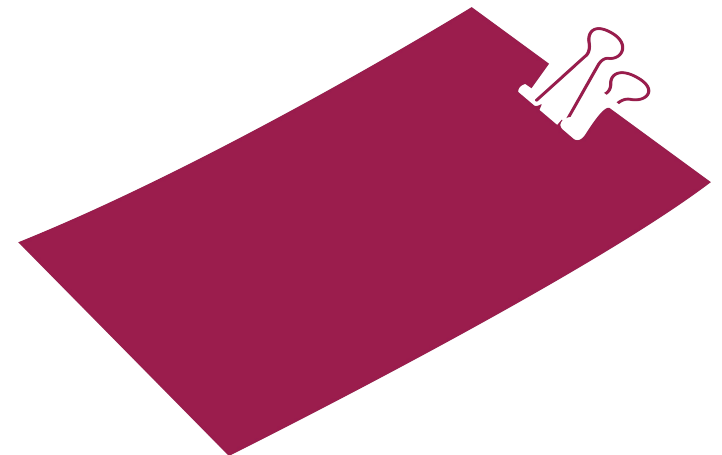
It was our first super-complaint in **7 years**. We estimated that loyal customers were overpaying by **£4bn** across five essential markets. We found low income and vulnerable customers were often on the worst deals.

When the Competition Markets Authority (CMA) investigated our complaint, they agreed with our findings. They called on regulators to take action in every market that we had found loyal customers were being exploited in.

Since then, regulators have made progress. If all proposals are implemented, consumers will save **£1bn**. In some markets, these savings will especially benefit vulnerable customers.

But there's still more to do. All the proposals from regulators and firms must be implemented so consumers can start to feel the benefit now.

The Financial Conduct Authority (FCA) have set the bar with its proposal to ban the loyalty penalty in the insurance market. But in other markets, particularly in mobile and mortgages, **we're worried that not enough action has been taken.**



Loyalty penalty timeline

September 2018 - Citizens Advice submits a super-complaint to the CMA that estimates 8 in 10 bill payers pay a loyalty penalty.

June 2019 - The Government responds by promising tough new powers. The current Prime Minister Theresa May calls for harmful practices to end.

September 2019 - Ofcom announces voluntary commitments from broadband companies.

September 2020 - FCA proposes to abolish the insurance loyalty penalty.

February 2018 - Citizens Advice publishes 'The cost of loyalty' - a report that examines how essential markets exploit consumer loyalty.

December 2018 - The CMA responds by agreeing that people are overpaying by billions of pounds. They call for regulators to take action.

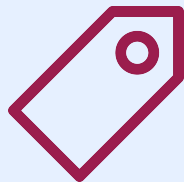
July 2019 - Ofcom announces voluntary commitments from mobile phone companies, except Three, to help address the loyalty penalty.

January 2020 - FCA consults on Single Easy Access Rates (SEARs) to tackle cash savings loyalty penalty.

The 2018 super-complaint in numbers



8 in 10 bill payers were charged significantly higher prices for staying with their existing supplier in at least one market.



£877

Customers could pay up to £877 extra per year if they paid the loyalty penalty in all 5 markets.

£4 billion a year

The amount we estimated that loyalty costs consumers.

15% of people






who had experienced a mental health problem in the past year thought it was too difficult to switch.



For people in the lowest income band, paying the loyalty penalty across all 5 markets would cost them almost **8% of their household expenditure** annually, in comparison to **less than 2%** for those in the highest income band.

This was compared to **5%** of people who hadn't experienced a mental health problem.

Since the super-complaint, regulators estimated that consumers are overpaying by **£3.4 billion**

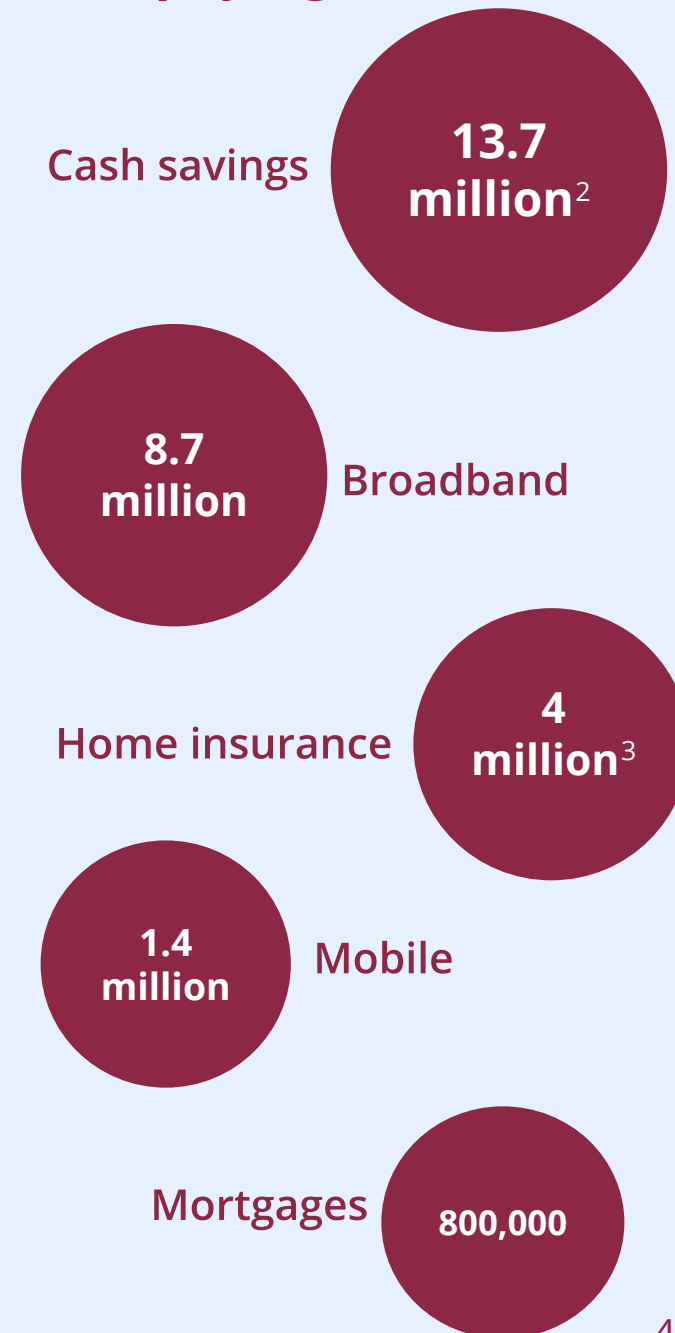
	Market	Regulator estimates
	Mobile	£182 million
	Broadband	£485 million
	Home insurance	£750 million ¹
	Cash savings	£1.1 billion
	Mortgage	£800 million

Total overpayment

£3.4 billion

1. £750 million FCA estimate in home insurance based on number of people paying high or very high margins
2. 13.7 million customers in cash savings based on the FCA's Financial Lives Survey, see appendix
3. 4 million customers in home insurance based on FCA estimate of people paying high or very premiums, see appendix

Number of people overpaying



Regulators have proposed strong measures to tackle the loyalty penalty in some markets, but it's a different story in others



Insurance

In 2019, the FCA found that **4 million** home insurance customers were paying high or very high margins.

In September 2020, they announced proposals to end gradual year-on-year price increases.

This would **end the loyalty penalty**, saving customers overall £370m per year.



Cash savings

The FCA found the loyalty penalty to be more than **£1.1 billion** in cash savings.

They announced a proposal in January 2020 to introduce Single Easy Access Rates. Customers will be moved to this rate one year after opening their account.

If implemented, this will save customers overall £260m a year.



Mortgages

The FCA Mortgages Market Study Final report found **800,000 people** are paying on average **£1,000** too much every year.

However, the FCA has not proposed any concrete action to tackle this yet - meaning customers are **still overpaying by £800m per year**.

Impact of FCA proposed measures in cash savings and insurance

£630 million

Regulators have proposed strong measures to tackle the loyalty penalty in some markets, but it's a different story in others



Broadband

In July, Ofcom announced voluntary commitments from broadband customers in July which they estimate will save loyal customers £274m.

Alongside this, they're conducting a review of affordability to judge whether a social tariff should be introduced in broadband.



Mobile

Ofcom estimated that **1.4 million** people are paying the mobile loyalty penalty.

They've made voluntary arrangements with providers - except for Three - to implement auto-switching and handset discounting from February 2020.

We estimate this will save loyal customers £58m a year.

Impact of Ofcom proposed measures

£332 million

Despite progress, our new research has found people are **still** being stung by the loyalty penalty

8 in 10 people are paying the loyalty penalty in at least one market

In the super complaint we submitted to the CMA in 2018, we called out the unfair practice in 5 essential markets - broadband, mobile, home insurance, savings and mortgages.

Our new polling has found 8 in 10 people are still paying the loyalty penalty in at least one of these markets - emphasising the importance of putting proposals in place quickly.



Around 1 in 4 people found their ability to switch was impacted by the coronavirus lockdown

We wanted to find out if the UK lockdown had an impact on people's switching behaviour. Our polling showed that 27% of people said their ability to switch was impacted by lockdown in at least 1 of the 5 essential service markets.

Christine's story

Christine, 70, a widow from County Durham, had her home insurance with the same provider for over 30 years.

Her brother-in-law came to Citizens Advice on her behalf after noticing a large insurance bill.

"I live alone and have no access to the internet and don't know how to use a computer. Because of this my brother-in-law helps me with some of my accounts. He noticed that I'd been charged a whopping £575 for buildings and contents insurance for my small three-bed terrace. Safe to say I was in shock."

"As a pensioner I couldn't afford to keep paying this extortionate amount. We looked up quotes with other insurers and I was offered like-for-like coverage for £80."



What needs to happen now



In all markets, **proposals need to turn into action**. Regulators and providers must reduce loyal customers' bills as a priority.



All **mobile providers** must ensure people aren't charged for a mobile handset they've already paid for. Ofcom needs to take stronger action to make voluntary commitments compulsory and permanent, backed up by government action if need be.



In the **insurance market**, the FCA should implement their proposals to abolish the loyalty penalty by cracking down on gradual year-on-year price increases as soon as possible.



In **cash savings**, the FCA needs to implement Single Easy Access Rates as soon as possible.



In the **mortgage market**, the FCA must act to reduce or eliminate the loyalty penalty and ensure vulnerable customers are on the best deal.



In **broadband**, firms should do more to help vulnerable customers who've been out of contract for a long time. All providers should turn one-off commitments into permanent solutions and provide extensive price reductions to vulnerable consumers.

Appendix

Methodology



1. Regulator estimates

- a. All data comes from Ofcom's Mobile Handset Consultation; Ofcom's Review of pricing practices in fixed broadband; the FCA's Price discrimination in the cash savings market Discussion Paper; the FCA's Mortgages Market Study Final Report; and the FCA's General insurance pricing practices Interim Report
- b. Mobile: Ofcom estimated that the loyalty penalty in the mobile market is £182 million.
- c. Broadband: Ofcom estimated that the loyalty penalty in the broadband market is £485 million.
- d. Mortgages: The FCA estimated that the loyalty penalty in the mortgages market is £800 million.
- e. Cash savings: All data used to calculate the £1.1 billion loyalty penalty in cash savings comes from the FCA's Discussion Paper on introducing a Basic Savings Rate.
- f. Home insurance: The FCA estimated if those who are currently paying high or very high margins in home insurance instead paid average margins, the total premiums those customers pay would fall by £750 million.

2. Number of people overpaying

- a. All data comes from Ofcom's Mobile Handset Consultation; Ofcom's Review of pricing practices in fixed broadband; and the FCA's Mortgages Market Study Final Report; the FCA's report on the 2017 Financial Lives Survey; and the FCA's General insurance pricing practices Interim Report
- b. Mobile: Ofcom estimated that the number of people paying the loyalty penalty is 1.4 million
- c. Broadband: Ofcom estimated that the number of people paying the loyalty penalty is 8.7 million
- d. Mortgages: The FCA estimated that the number of people paying the loyalty penalty is 800,000
- e. Cash savings: The Financial Lives Survey (FLS) found that the number of UK adults with savings accounts (excluding ISAs) is 30.4 million and that 45% of adults with savings accounts have held these for at least 5 years (i.e. are paying the loyalty penalty). 45% of 30.4 million is 13.7 million.
- f. Home insurance: The FCA estimated that 4 million home insurance customers were paying high or very high margins in 2018.

Methodology



3. Impact of proposed measures

- a. All data comes from Ofcom's Mobile Handset Consultation; Ofcom's Review of pricing practices in fixed broadband; and the FCA's Mortgages Market Study Final Report; the FCA's report on the 2017 Financial Lives Survey; and the FCA's General insurance pricing practices Final Report

4. 8 in 10 people paying the loyalty penalty

- a. Analysis of Opinium polling of 3,454 Great Britain adults conducted 14 - 27 August 2020 identified how many people are paying a loyalty penalty in at least one essential market. Additional fieldwork was conducted between 15 and 21 September 2020 with 949 respondents who indicated that they had a mortgage contract, to determine whether this was fixed or variable.
- b. People were classed as paying the loyalty penalty based on how long they had been with their current provider in each market. The same methodology was used for the super-complaint submitted by Citizens Advice to the CMA in 2018.
- c. A Citizens Advice researcher attempted to find the longest fixed-term contract available in each of the markets. Where many different contract lengths were available, the longest period was chosen, even if many providers only offer shorter length contracts.

5. 1 in 4 people found their ability to switch impacted by lockdown

- a. Analysis of Opinium polling of 3,454 GB adults conducted 14 - 27 August 2020 identified the extent to which the UK lockdown in response to Coronavirus impacted people's ability to switch
- b. This question was asked to people who had a contract for at least 1 essential service.
- c. 27% of people answered this question 'to some/ great extent' for at least 1 of the 5 markets.

References



Page 2

- Citizens Advice Loyalty Penalty Reports:
 - Citizens Advice, [Modernising consumer markets: Citizens Advice formal consultation response](#), 2018; Citizens Advice, [Citizens Advice responds to the FCA's move on the loyalty penalty](#), 2018; Citizens Advice, [Improving the Mortgage Market](#), July 2017.
 - Citizens Advice, [Exploring the loyalty penalty in the broadband market](#), April 2017.
 - Citizens Advice, [Exploring the loyalty penalty in the mortgage market](#), July 2017.
 - Citizens Advice, [The insurance loyalty penalty: unfair pricing in the home insurance market](#), November 2017.
 - Citizens Advice, [The cost of loyalty: exploring how long-standing customers pay more for essential services](#), February 2018.
 - Citizens Advice, [Hung up on the Handset. An investigation into sales practices in the mobile phone market](#), April 2016.
 - Citizens Advice, [Super-complaint](#), Sept 2018
-
- CMA [response to Citizens Advice Super-complaint](#), Dec 2018
 - Ofcom, [Helping consumers to get better deals in communications markets: mobile handsets](#), July 2019
 - FCA [Introducing a Single Easy Access Rate](#), Jan 2020
 - BEIS, [New powers for competition watchdog](#), June 2019
 - FCA [Proposals to Reform Insurance Markets](#), Sept 2020

Page 3

- Citizens Advice, [Super-complaint](#), Sept 2018

Page 4

- Regulator estimates (see methodology page)
- Number of people paying the loyalty penalty (see methodology page)

Page 5

- FCA [General Insurance Market Study](#)
- FCA [Proposals to Reform Insurance Markets](#)
- FCA [Mortgages Market Study](#)
- FCA [Price discrimination in the cash savings market Discussion Paper](#)
- FCA [Introducing a Single Easy Access Rate](#), Jan 2020

Page 6

- Ofcom, [Helping consumers to get better deals in communications markets: mobile handsets](#), July 2019

Free, confidential advice.

Whoever you are.

We give people the knowledge and confidence they need to find their way forward - whoever they are, and whatever their problem.

We're here for everyone.



citizensadvice.org.uk

Published September 2020

Citizens Advice is the operating name of the The National Association of Citizens Advice Bureaux.

Registered charity number 279057.